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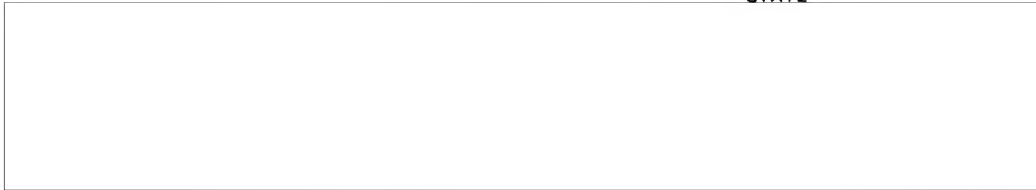
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E.O. 12956: DECL: OADR
TAGS: PREL, EFIN, EAID, EINV
SUBJECT: PRESIDENT GARCIA'S COMMENTS TO SENATOR KENNEDY

REF: STATE 12950

1. CONFIDENTIAL - ENTIRE TEXT.

2. PRIOR TO HIS DEPARTURE FROM LIMA EARLY A.M. JANUARY 17, SENATOR KENNEDY GAVE POLCOUNS A BRIEF READOUT ON HIS TWO HOUR PRIVATE CONVERSATION WITH PRESIDENT GARCIA DAY BEFORE. SENATOR SAID ATMOSPHERE HAD BEEN EXTREMELY CORDIAL, THAT GARCIA SEEMED TO BE REACHING OUT, AND THAT THE TWO HAD ESTABLISHED A PERSONAL RELATIONSHIP. HE EXPRESSED VIEW THAT GARCIA COULD BE WORKED WITH. HE SAID HE PLANNED TO CONVEY IN WASHINGTON HIS WILLINGNESS TO BE USEFUL TO ADMINISTRATION IN DEALING WITH PERUVIAN PRESIDENT IN FUTURE, SHOULD THAT BE DEEMED HELPFUL AND APPROPRIATE. SENATOR SAID HE MADE POINTS DAS GELBARD HAD SUGGESTED REFTEL. KENNEDY RELAYED FOLLOWING COMMENTS BY GARCIA ON SOME OF MATTERS THEY DISCUSSED.

A. DEBT. THE TEN PERCENT FORMULA IS NOT MAGIC. ADJUSTMENTS WILL HAVE TO BE MADE DOWN THE LINE. HE IS NOT RULING OUT NEGOTIATION. ON OTHER HAND, IF THERE IS TO BE AN ECONOMIC COLLAPSE, IT SHOULD RESULT FROM A PERUVIAN AS OPPOSED TO AN IMF PROGRAM. IMF PROGRAMS ARE BASED ON WRONG NUMBERS AND ARE UNSOUND. HE BELIEVES THE CASTRO APPROACH (RENOUNCE DEBT) IS ALSO MISTAKEN. IDEA IS NOT TO DESTROY SYSTEM, AS CASTRO WOULD DO, BUT TO PUT IT ON REASONABLE BASIS. HIS OPINION IS THAT MEXICO AND ARGENTINA ARE PUTTING THEMSELVES BEHIND CURVE AND THAT THEY WILL EVENTUALLY BE OBLIGED BY CIRCUMSTANCES TO MOVE CLOSER TO HIS (GARCIA'S) POSITION.

B. BELCO. INTENTION NEVER WAS TO NATIONALIZE. GOP OFFERED BELCO AND OXY MORE OR LESS SAME DEAL. OXY TOOK IT; BELCO DID NOT. COMMISSION WAS AT WORK TO SORT OUT VALUE OF BELCO'S ASSETS. HE (GARCIA) DID NOT INTEND TO ALLOW THIS TO BECOME A POLITICAL PROBLEM BY NOT PAYING COMPENSATION. WHEN SENATOR

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RAISED EFFECT OF BELCO DECISION ON PROSPECTS FOR PRIVATE INVESTMENT, GARCIA REMARKED THAT THERE IS NO SIGNIFICANT FOREIGN INVESTMENT ON HORIZON IN ANY CASE.

- C. BROOKE ALEXANDER. HE HAD INFORMATION THAT U.S. AID FOR THIS FISCAL YEAR WOULD BE ONLY DOLS 47 MILLION. IN THOSE CIRCUMSTANCES, IT (ARREARAGES PROBLEM) MIGHT NOT WORK OUT. HE WOULD NOT LIKE TO LOSE U.S. AID, BUT PERU CAN LIVE WITHOUT IT.

- D. RHETORIC. THIS ISSUE HAS BEEN OVER-EMPHASIZED. HE CHARACTERIZED SECRETARY SHULTZ AS A VERY SERIOUS AND INTELLIGENT MAN, AND BRUSHED ASIDE (KENNEDY'S) SUGGESTION THAT HIS PERSONAL RELATIONSHIP WITH SECRETARY HAD NOT GOTTEN OFF TO GOOD START.

3. COMMENT. KENNEDY SEEMS TO HAVE ELICITED FROM GARCIA AN EXPRESSION OF SOME FLEXIBILITY ON DEBT ISSUE. ON OTHER HAND, PRESIDENT'S COMMENTS ON BROOKE-ALEXANDER/6200 ARREARAGE PROBLEM ARE DISCONCERTING. WE DO NOT KNOW WHERE HE GOT DOLS 47 MILLION FIGURE. IT IS PROBABLY WRONG IN TERMS OF FY 86 MONEY WHICH WOULD BE AFFECTED BY AMENDMENTS, AND IT DOES NOT TAKE PIPELINE INTO ACCOUNT. WHEN PRESUMABLY HIGHER FY 86 FIGURES ARE KNOWN WE WILL CORRECT GARCIA'S IMPRESSION AND AGAIN STRESS IMPORTANCE OF ELIMINATING THOSE ARREARAGES. OUR CLEAR IMPRESSION IS THAT NUMBER OF MINISTERS HAVE BEEN PRESSING FOR REGULARIZATION OF THIS SITUATION. JORDAN
END OF MESSAGE

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